



**Table of Contents**

**Market Review**

**Portfolio Attribution**

**Outlook**

**Portfolio Structure**

**Review**

- The Composite outperformed its benchmark for the quarter.
- High quality financial factors were helpful to returns.
- Good stock selection a key driver of relative portfolio returns

**Composite Performance (as of March 31, 2005)**

	Last Quarter	Last 12 Months	3 Years <sup>1</sup>	5 Years <sup>1</sup>	10 Years <sup>1</sup>	Since Inception <sup>2</sup>	Volatility <sup>3</sup>
Global Equity (gross)	0.6%	6.4%	5.6%	(0.9%)	8.0%	10.1%	13.7%
Global Equity (net)	0.5%	5.7%	5.0%	(1.6%)	7.2%	9.2%	13.6%
MSCI ACW <sup>4</sup>	(0.8%)	11.4%	7.4%	(2.2%)	7.7%	7.0%	14.3%
MSCI World	(1.0%)	11.1%	6.9%	(2.5%)	7.9%	7.1%	14.2%

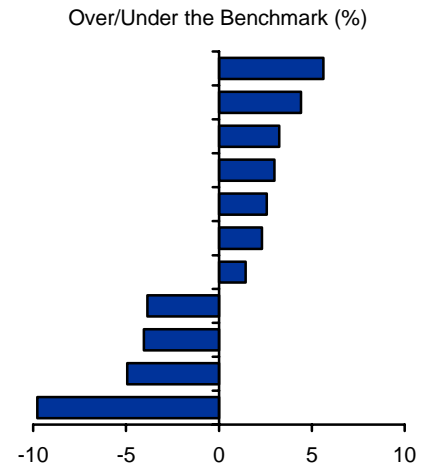
<sup>1</sup>Annualized Returns, <sup>2</sup>Inception Date: November 30, 1989; <sup>3</sup>Annual Standard Deviation <sup>4</sup>The Benchmark Index  
Please read the above performance in conjunction with the footnotes on the back page of this report.

**Outlook**

- Yield curve flattening anticipating a slowing economy?
- Risk premiums likely to be on the rise; profit margins not.
- Emerging markets and high quality not mutually exclusive.

**Current Portfolio Sector Exposure<sup>1</sup>**

Sector	HL Global	MSCI ACW
Info Technology	16.9%	11.2%
Cash	4.4%	--
Consumer Staples	11.9%	8.6%
Materials	8.9%	5.9%
Industrials	13.1%	10.5%
Energy	11.5%	9.2%
Cons Discretionary	13.2%	11.8%
Telecom Services	1.2%	5.1%
Utilities	--	4.1%
Health Care	5.0%	9.9%
Financials	13.9%	23.7%



**Composite Activity**

Purchases	Sales
3M Company	BEA Systems      Merck
America Movil ADR	Coca-Cola Femsa ADR      Rohm
Automatic Data Proc	Denway Motors      Sumitomo Mitsui Financial
Li & Fung	Deutsche Bank      Vodafone Group ADR

All holdings and sector allocations are subject to review and adjustment in accordance with our investment strategy and may vary in the future and are not recommendations to buy or sell any security. A complete list of holdings appears on page 9 of this report.

<sup>1</sup>The current portfolio sector exposure is shown as supplemental information only and complements the Global Equity Composite presentation which is located on the front and back covers of this report.

***A retreat from risky  
assets driven by  
inflation and interest  
rate fears . . .***

## **Market Review**

In the first quarter of 2005 the Composite rose in value by 0.6%, ahead of the return of its benchmark, the MSCI All Country World Index, which fell 0.8%.

The quarter was marked by zig-zagging stock markets, with alternately a poor January, a very strong February, and lastly by a weak March—betraying vacillation among investors. The turning point came halfway through February, when Federal Reserve Chairman Alan Greenspan noted that low long-term bond yields in the face of rising short-term interest rates were a “conundrum.” This was followed by a particularly weak sales report by General Motors at the end of February, causing the company to warn of cash flow losses, shuffle its management, and suffer credit rating downgrades and a savaging of its publicly traded debt—events that helped trigger a retreat from risky assets in both debt and equity markets around the globe. Market participants began to revise their appetite for high-yield debt of all kinds, including emerging markets debt, when faced with intimations that the supply of such debt could jump: outstanding debt of GM (let alone other issuers) that could soon be reclassified as ‘junk’ amounts to 10% of the current high-yield market. The combined impact of Greenspan on risk-free rates and GM on risk spreads was a watershed for discount rates in the quarter, sending most securities into a three week correction, in which even the ultimate safe haven, US Treasury CPI-index linked bonds, declined in price.

***. . . coming up against  
heavy asset flows.***

Emerging Markets stocks, affected by both rising rates and rising risk aversion, still turned in the highest returns in the quarter of any ‘region’, although the ride was bumpy, and most of the gains came before the GM announcement. The MSCI Emerging Markets Index rose more than 9% through the end of February, and then fell 7% in the first three weeks of March before recovering to end the quarter with a 2% gain. The volatility was driven by heavy flows into the asset class coming up against growing inflation fears and expectations for continued central bank responses, especially by the US Federal Reserve, prompting the re-evaluation of discount rates along with the risk premium. Japan, on the other hand, fell more than 2%, with economic data suggesting the recovery there might falter. The US market, a bellwether for international sentiment, also declined 2%, and the NASDAQ market, heavy in (risky) technology shares, declined by 8% as higher interest rates dampened hopes for rampant growth. Resource-rich Australia drove the Pacific ex-Japan region modestly higher; so did oil producers Norway and the UK for non-EMU Europe. Canada, another resource-heavy market, rose as well.

**Non-US markets generally out-performed the US, especially in local currency.**

<b>Market Performance (% Total Return)</b>				
<b>Market</b>	Trailing 12 Months		1Q 2005	
	<b>USD</b>	<b>Local</b>	<b>USD</b>	<b>Local</b>
Canada	24.2	14.4	3.7	4.8
Germany	19.4	12.9	-2.2	2.3
Japan	-1.6	1.2	-2.3	1.9
United Kingdom	19.0	15.8	1.4	3.0
United States	6.9	6.9	-2.0	-2.0
Europe EMU	22.5	15.8	0.0	4.6
Europe ex-EMU	19.2	14.7	1.0	3.7
Pacific ex-Japan	22.9	21.3	0.6	1.8
Emerging Markets	17.0	11.7	1.9	2.9

Source: Wilshire Atlas, MSCI

Currency didn't help non-US returns in the first quarter. Non-US market returns were generally much higher in local currencies than in US Dollar terms, as major currencies such as the Euro and the Yen depreciated more than 4% against the Dollar in the quarter.

**Resilient prices drove Energy sector returns.**

<b>Sector Performance of the MSCI All Country World Index (%Total Return in USD)</b>		
	Trailing 12 Months	1Q 2005
Consumer Discretionary	7.9	-3.6
Consumer Staples	9.1	1.3
Energy	39.4	12.4
Financials	9.5	-3.3
Health Care	6.3	-0.5
Industrials	17.9	0.7
Information Technology	-5.0	-6.1
Materials	21.7	2.6
Telecom Services	11.5	-5.2
Utilities	24.3	2.0

Source: Wilshire Atlas, MSCI

Energy stocks soared in the quarter, in response to the resilience of product prices through the entire value chain, from well head to gasoline pump, confounding many analysts who had predicted a 'normalization' of the oil price after winter weather abated and any hoarding of inventories began to unwind. An explosion at a US refinery owned by British Petroleum reminded investors of the structurally tight supply/demand balance for the industry globally. The sector rose more than 12%, dwarfing returns in other industries. The Materials sector, comprising mined commodities as well as chemicals and paper, was a distant second, rising 3%. Five of the sectors actually lost value in the quarter, with Information Technology and Telecom Services the weakest.

**High-quality financial and business factors were additive to performance for the first time in years.**

Investment style effects played their now tiresome (for us!) role of headwind for growth investors and tailwind for value investors in nearly all markets, as measured by the MSCI Growth and Value sub-indices. The UK was a notable exception. Small cap stocks outperformed large-cap indices in all non-US geographies, but trailed inside the US.

Quality factor effects, as described in our year-end letter, appear to be shifting in favor of higher quality this quarter. Following more than two years in which high financial and business quality was toxic for returns, all of the factors we use as objective proxies for quality (return on assets, operating margin, volatility of returns, debt/equity ratio, or return on equity) showed a positive performance bias in favor of higher quality this quarter, as you can see from the table below.

Top vs Bottom Quintile of Stocks in MSCI AC World Index						
(% Total Return in USD)						
	9/30/02-12/31/04			12/31/04-3/31/05		
	Top	Bottom	Difference	Top	Bottom	Difference
Return on Assets	46.5	100.9	-54.4	1.3	-3.0	4.3
Return on Equity	52.3	90.4	-38.1	1.2	-3.4	4.6
Std Dev of ROE (5 Yr) <sup>1</sup>	58.5	73.1	-14.6	-1.5	-3.1	1.6
Debt/Equity Ratio <sup>1</sup>	70.3	78.6	-8.3	-2.3	-1.6	-0.7
Profit Margin	50.2	97.3	-47.1	-2.6	-1.8	-0.8

<sup>1</sup> "Top" Quintile = lowest

Source: Wilshire Atlas, MSCI

## Portfolio Attribution

Good performance this quarter came primarily from stock selection, although sector allocation effects were also modestly positive, and the contributors were spread very broadly across industry sectors, with no particular standouts. Whereas the portfolio had significant Energy holdings, our stocks just kept pace with the blistering return of the sector, despite our holding in **ExxonMobil**, which added nearly \$70 billion to its market cap in February. In contrast, we saw strong performance within our Information Technology holdings, with Asian stocks **Samsung Electronics**, **Canon**, **Taiwan Semiconductor**, and optical sensor specialist **Keyence** overcoming the weakness of the sector to outperform the overall market. All but one of our Financials holdings performed better than the sector, where our underweight stance was also additive. The exception was **AIG**, which fell 15% in the quarter on the resignation of its Chairman and CEO, Hank Greenberg, after an inquiry by Elliott Spitzer revealed several issues of improper accounting for reinsurance contracts. Lastly, we suffered from poor stock selection within the Industrials sector, where our

**Good stock selection was the primary driver of relative returns — across all industry sectors.**

Bold indicates companies held in the portfolio during the quarter. The percentage of currently held positions appears on page 9 of this report. Although these holdings, as well as others mentioned in this report, were viewed favorably at the end of the reporting period, all holdings are subject to review and adjustment in accordance with our investment strategy and may vary in the future; and are not recommendations to buy or sell any security.

**Our high quality emphasis helped relative returns.**

holdings within the US capital goods group—**Caterpillar**, **Emerson**, **GE**, and **Tyco**—performed poorly.

In spite of the drag from AIG, US capital goods, and US technology, the overall performance contribution from the US was neutral, with neutral stock selection, and our US underweight stance, now reduced, a tiny positive in the quarter. Emerging markets, however, were significant positive contributors, since they managed to outperform developed markets this quarter, as mentioned above. Our emerging stocks did better still. **Sasol**, the South African synthetic fuels company, **Wal-Mart de Mexico**, and South Korea's **Kookmin Bank** and **Samsung Electronics**, combined to produce a positive contribution from both our allocation to developing countries and our security selection within them. Finally, our holding of Canadian gas producer **EnCana**, which rose 24% in the quarter in US Dollars, delivered strong positive contributions from that geographic quarter.

Our emphasis on high-quality businesses, that is, those with high and stable returns, strong operating margins and low leverage was modestly additive to performance in the quarter, with the most pronounced effect being high return on assets.

## **Outlook**

The seven increases in overnight interest rates by the US Fed have coincided with a flatter yield curve, where longer-term bond yields are rising at a slower pace than are the short-term rates that the Fed controls, perhaps anticipating the day that higher overall interest rates slow down the global economy and make the fixed return of bonds more attractive than the variable returns on cash or stocks. Invariably in the past, this process of curve flattening has anticipated a slowing economy, and warned of increasing risk of recession. That risk seems remote at the moment, despite the bond market's message. However, there are other problems looming for companies, which are in some regions—the US, Japan, and some emerging markets in particular—enjoying decade-high profit margins.

**Decade-high profit margins are subject to looming problems.**

Higher energy prices are acting as a tax on oil importers, notably the US, Western Europe, and Japan, whereby consumers of energy are required to pay heftier amounts to producers, notably including oil-rich states in the Middle East. But the sustained rises in energy prices are also stirring inflation worries among energy users, investors and monetary authorities, causing them to begin to act in unaccustomed ways as they try to hedge against the consequences of such a worry becoming a reality. This might mean building stockpiles of oil and oil products by Chinese authorities or industrial users; it might mean pricing in inflation risks to the bond market,

***Companies are achieving pricing power—a harbinger of inflation?***

***Our investment biases are not only good for the long run, but are particularly timely.***

and higher long-term prices to energy-related markets and securities by investors; it might mean more demands for wage adjustments by labor contract negotiators; and it might mean greater determination to lean against any such surge with monetary tightness by central bankers. All of these presumed actions entail a harsher operating environment for companies. At the very least, we see anecdotal signs of economic headwinds. Companies we speak to are reporting that they are achieving pricing power versus their customers, flattering to margins to be sure, but also a potential harbinger of input inflation. Japan, the developed economy most dependent on energy imports, has slipped back towards nominal economic contraction. China, the voracious user of all manner of energy and commodity raw materials, has swung from steel importer to steel exporter, implying excess capacity has already arrived in its industrial sector. Germany recorded five million unemployed or 12% of its workforce, in March, a post-WWII high. If these large economies, all integrated into the global economy as large exporters, are showing signs of strain, then profit growth for the average company is unlikely to surprise on the upside from here. Risk premiums implied in current stock and bond prices don't appear to discount adequately these gathering clouds, and thus are likely to be on the rise.

It is for this reason that we believe that our longstanding bias towards companies with strong competitive advantages, sound finances, able and honest managements, and promising growth prospects is not only a good one for the long term, but also particularly timely for performance in the short run. Companies within industries with good competitive dynamics will suffer less as growth opportunities become more scarce. Companies with strong cash flows and low leverage will not be hampered by higher interest expenses or hostile capital markets when making capital investments. Managements with foresight and logical strategies will be able to seize opportunities or exploit other companies' weaknesses in more difficult circumstances. And companies with secular growth prospects will find their path smoother over cyclical speed bumps.

It is not clear whether the rise in the US currency this quarter is just a transient correction in the secular decline of the Dollar, or whether the Fed's steady hand on the interest rate lever is creating the basis for a more lasting stability in the exchange rate. We suspect the proximate cause was the overwhelming bearish consensus against the Dollar after more than three years of appreciation has left European currencies feeling, at least to the occasional traveler, outrageously expensive. [But that's the point, isn't it? Discouraging Americans from consuming foreign goods and services, in favor of saving at home!]

**Underweights in  
Financials, Telecom  
Services, Health Care  
and Utilities continue.**

**Overweight Emerging  
Markets—for sound,  
fundamental reasons.**

## Portfolio Structure

The turnover within our portfolio has been modest in recent months. Thus today's outperforming portfolio is, practically speaking, the same high-quality portfolio that lagged the benchmark during the 'rising-tide-lifts-all-boats' low-quality rally of the past two years. On objective measures of quality, the portfolio has a median return on assets that is two-thirds higher than the benchmark, and a median debt/equity ratio that is almost one-third lower.

From a sector standpoint, the portfolio is significantly underweight Financials, Telecom Services, Health Care, and Utilities but overweight all the other sectors. While we have long been skeptics of the ability of banks and investment banks to earn consistent returns, it seems a particularly good time to avoid these investments when interest rates are rising, credit losses are at cyclical lows, and the group's share of total corporate earnings compares favorably to the Energy sector's share at the height of the energy crisis in the 1970's. We are focused on banks with exposure to the per capita income growth and high savings rates of developing countries, with roughly a third of our Financials weighting related to Southeast Asia or developing countries via **Kookmin Bank** of South Korea, **Standard Chartered Bank** across Asia, Africa, and the Middle East, **Erste Bank** in Central Europe, **Bangkok Bank** of Thailand, as well as the substantial portion of **AIG's** businesses centered in Asia and in developing countries. Elsewhere, we have concentrated on very high quality within the financial sector, with four holdings representing half our sector weighting rated AA+ or AAA. We sold two lower quality companies in the sector this quarter, **Sumitomo Mitusi Financial Group** and **Deutsche Bank**, taking our negative stance on the sector even further. The portfolio now has less than 15% in the financial sector, while the benchmark holds almost a quarter.

One area of focus for us is our emphasis on companies based in emerging markets, where we remain overweight at the expense of the US. That emphasis has been reduced alongside the increase in our US holdings this quarter. We explain our heavy Emerging Markets weightings as the result of readily finding companies with high quality (competitive advantages, good management, and financial strength) and strong growth, irrespective of the perceived riskiness of their domiciles. [Indeed, one can argue that the asset class categorization is a construct that we shouldn't feel bound by.] Looking at aggregate statistics reinforces that longstanding notion:

**Selected Financial Measures**

**As of March 31, 2005**

	MSCI Emerging Markets Index	MSCI World ex-US Index	MSCI US Index
<b>QUALITY-RELATED MEASURES</b>			
Return on Assets	7.6	3.6	6.0
Return on Equity	17.0	14.4	17.3
Std Dev of ROE (5 Yr)	5.0	3.8	4.6
Debt/Equity Ratio	31.1	52.0	39.2
Profit Margin	10.9	7.8	11.2
<b>GROWTH-RELATED MEASURES</b>			
5 Year Sales Growth	20.2	5.4	7.4
5 Year Earnings Growth	15.0	2.7	8.6
5 Year Cash Flow Growth	17.1	4.6	10.7
5 Year Dividend Growth	11.7	2.5	3.5

Figures shown are weighted medians

Source: Wilshire Atlas, MSCI

We suspect that part of this measurement is a large-cap effect: a number of the most successful companies domiciled in emerging markets have become heavyweights in their benchmarks. Some of those successful companies are, as you might expect, also owned in our portfolio. But if, on a weighted basis, emerging markets companies measure out at higher quality than developed markets companies, it is foolish not to embrace them as potential investment candidates. Indeed, our research and investment process embraces higher quality and more reliable growth, irrespective of domicile, by assigning a lower risk premium to companies deemed to have less actual business risk, rather than lower short-term stock price volatility.

However, embracing them as candidates is necessary but not sufficient for including them in the portfolio, which is where valuation comes in. The fact is that emerging markets stocks and emerging markets indices are more volatile (i.e. riskier, by that definition) than developed markets stocks and indices. Part of that volatility has been related to concerns about corporate governance and transparency at emerging markets companies, but of course **AIG** has served up just one more example of why US companies in aggregate no longer deserve the premium they have been accorded in the past. And part has been related to emerging markets discount rates (risk free rate plus risk premium) that are both higher and more volatile, because the macroeconomic policy and legal frameworks are less reliable or stable, and because in many cases developing economies have been dependent on foreign capital, which is alternately fervid and fickle.

***Emerging markets stocks show not only a higher degree of growth than their developed markets counterparts, but also of financial quality.***

**Risk premiums are on the rise, but developing companies still present a growth opportunity set.**

Risk premiums are on the rise, as noted earlier, and we are growing more cautious about holdings in what many still view as an asset class, not a region. But we wonder whether perhaps the aggregate quality and growth statistics of emerging markets indices reflect at the micro, i.e., company, level the same thing that we have been focused on for some time: namely, that it is the developing countries, the Asian emerging markets prominently among them, that have large and growing savings pools and better growth demographics, whereas the developed world has the debt and the graying demographics...We will not forego that opportunity set.

**Global Equity Holdings as of March 31, 2005**
**Supplemental Information**

Sector	Company	Country	Weight (%)	Description
Consumer Discretionary	Comcast	United States	1.3	Cable operator
	LVMH	France	1.0	Luxury goods group
	Li & Fung	Hong Kong	2.2	Trading company
	Pearson	United Kingdom	1.5	Education & publishing company
	Sony	Japan	1.0	Electronics & entertainment media company
	TJX Companies	United States	2.8	Off-priced name brand stores
	VNU	Netherlands	1.8	Market research company
	Viacom	United States	1.6	Media & entertainment group
Consumer Staples	Coca-Cola	United States	1.1	Soft drinks company
	Colgate-Palmolive	United States	2.5	Consumer products company
	Estee Lauder	United States	1.1	Manufacturer & marketer of skin care, makeup & fragrances
	Heineken	Netherlands	1.2	International brewing company
	L'Oreal	France	2.3	Personal care products manufacturer
	Nestlé	Switzerland	2.0	Global food company
	Wal-Mart de Mexico	Mexico	1.6	Consumer goods & food retailer
Energy	EnCana	Canada	3.9	Producer of natural gas
	Exxon Mobil	United States	1.4	Global oil company
	Kinder Morgan	United States	2.6	Natural gas transportation & logistics company
	Sasol	South Africa	1.2	Refined petroleum products producer
	Schlumberger	France	2.4	Oil services company
Financials	American Int'l Group	United States	1.8	Insurance holding company
	Bangkok Bank	Thailand	1.0	Commercial bank
	Bankinter	Spain	1.2	Small Spanish bank
	Berkshire Hathaway	United States	0.9	Auto insurer & general reinsurer
	Erste Bank	Austria	1.1	Savings & retail bank
	Kookmin Bank	South Korea	1.1	Retail-oriented bank
	Nomura Holdings	Japan	1.0	Brokerage firm
	Standard Chartered	United Kingdom	2.1	Multinational commercial bank
	Swiss Re	Switzerland	2.9	Large reinsurer
Wells Fargo	United States	0.9	Super regional bank	
Health Care	Abbott Labs	United States	1.2	Health care products & pharmaceuticals producer
	Medco Health Solutions	United States	1.2	Pharmaceutical benefits manager
	Novartis	Switzerland	1.3	Multinational life sciences company
	Qiagen	Netherlands	1.2	Laboratory equipment supplier
Industrials	3M Co.	United States	2.0	Industrial technology
	ADP	United States	1.0	Payroll & tax-filing processor
	Caterpillar	United States	2.9	Producer of earthmoving equipment
	China Merchants	China	2.2	Global port operator
	Emerson Electric	United States	2.5	Global industrial & electronics controls company
	General Electric	United States	1.4	Diversified products & services company
	Mitsubishi Corp.	Japan	1.1	Trading company
	Tyco Int'l	United States	1.0	Industrial products manufacturer
Information Technology	Analog Devices	United States	1.5	Analog mixed-signal computer chip maker
	Canon	Japan	1.1	Maker of image & information equipment
	Dassault Systemes	France	1.5	CAD/CAM software designer
	Hirose Electric	Japan	1.1	Manufacturer of electrical connectors & components
	Keyence	Japan	2.6	Detection & measuring control equipment maker
	Oracle	United States	3.5	Software company
	Qualcomm	United States	1.8	CDMA wireless communications technology firm
	Samsung Electronics	South Korea	1.4	Electronic equipment maker
Taiwan Semiconductor	Taiwan	1.4	Dedicated IC foundry	
Materials	Air Liquide	France	1.4	Industrial gas company
	Air Products & Chemicals	United States	1.2	Industrial gas company
	JSR	Japan	2.4	Specialty chemicals manufacturer
	Praxair	United States	1.3	Industrial gas company
	Rio Tinto	United Kingdom	2.6	Diversified mining company
Telecom Services	America Movil	Mexico	1.2	Cellular service provider

Specific securities, portfolio holdings and sector/region weights are subject to review and adjustment in accordance with our investment strategy, may vary in the future, and should not be considered recommendations to buy or sell any security.

The portfolio holdings shown are supplemental information only and complement the Global Equity Composite presentation which is located on the front & back page of this report.

## Contributors to Returns Relative to the Benchmark

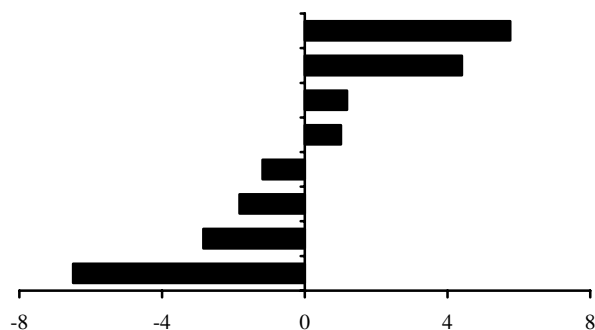
Largest Holdings	GICS Sector	Region	Return	Average Wt.	Contribution
EnCana	Energy	Canada	23.6%	3.5%	0.75%
Oracle	Info Technology	United States	(9.0%)	3.4%	(0.35%)
Caterpillar Inc.	Industrials	United States	(5.8%)	2.9%	(0.18%)
TJX Companies	Cons Discretionary	United States	(1.8%)	2.9%	(0.03%)
Swiss Re	Financials	Europe ex-EMU	0.8%	2.7%	0.02%
Positive Contributors	GICS Sector	Region	Return	Average Wt.	Contribution
EnCana	Energy	Canada	23.6%	3.5%	0.75%
Samsung Electronics	Info Technology	Emerging Markets	13.0%	2.6%	0.33%
Rio Tinto	Materials	Europe ex-EMU	11.3%	2.6%	0.27%
Medco Health Solutions	Health Care	United States	19.2%	1.1%	0.20%
Exxon Mobil Corp.	Energy	United States	16.8%	1.3%	0.20%
Negative Contributors	GICS Sector	Region	Return	Average Wt.	Contribution
Oracle Systems	Info Technology	United States	(9.0%)	3.4%	(0.35%)
American Intl Group	Financials	United States	(15.5%)	2.1%	(0.33%)
Qualcomm	Info Technology	United States	(13.4%)	2.0%	(0.28%)
JSR Corp.	Materials	Japan	(9.4%)	2.3%	(0.24%)
Vodafone*	Telecom Services	Europe ex-EMU	(4.5%)	0.7%	(0.18%)

All holdings and sector allocations are subject to review and adjustment in accordance with our investment strategy and may vary in the future and are not recommendations to buy or sell any security. The portfolio is actively managed; therefore holdings may not be current.

\*Security owned for partial period; return shown is for the actual period owned in the portfolio.

## Current Composite Regional Exposure

Region	HL Global Equity	MSCI ACW Index
Emerging Markets	11.1%	5.4%
Cash	4.4%	--
Japan	10.3%	9.1%
Canada	3.9%	2.9%
Pacific ex-Japan	2.1%	3.3%
Europe EMU	12.8%	14.6%
Europe ex-EMU	12.4%	15.2%
United States	43.0%	49.5%



## Portfolio Characteristics

Characteristics	HL Global	ACW	Characteristics (3 Years)	HL Global	ACW
Avg Wtd Market Cap (\$B)	\$45.1	\$67.2	Alpha	(1.41)	0.00
Price/Earnings (Trailing)	22.5x	18.6x	Beta	1.02	1.00
Price/Cash Flow	13.0x	11.3x	R-Squared	0.96	1.00
Price/Book	3.0x	2.5x	Sharpe Ratio	0.11	0.14
Dividend Yield	1.5%	2.2%	Standard Deviation	15.36	14.74
Return on Equity	20.4%	19.7%	Correlation	0.98	1.00
Number Holdings	57	2405	Turnover (Average)	46%	---

Source: Wilshire Atlas

*Average Weighted Market Capitalization* is the product of a security's price and the number of shares outstanding. *Price/Earnings* is the ratio of a firm's closing stock price and its trailing 12 months' earnings per share. *Price/Cash Flow* is the ratio of a firm's closing stock price and its fiscal year end cash flow per share. *Price/Book* is the ratio of a firm's closing stock price and its fiscal year end book value per share. *Dividend Yield* is indicated dividend rate divided by current price, expressed as a percent. *Return on Equity* is the net income divided by total common equity outstanding, expressed as a percent.

*Alpha* is a measure of risk-adjusted return. *Beta* is a measure of the portfolio's sensitivity to the market. *R-Squared* is a measure of how well a portfolio tracks the market. *Sharpe Ratio* is the return over the risk free rate per unit of risk. *Standard Deviation* is the statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. *Correlation* is the statistical measure of the degree to which the movements of two variables are related. *Turnover* is the ratio calculated by dividing the lesser of purchases or sales by average capital, expressed as a percent.

The above portfolio statistics are shown as supplemental information only and complement the Global Equity Composite presentation which is located on the front and back covers of this report.

## Global Equity Composite Performance Summary 2005 First Quarter Report

	HL GLBL EQ (Gross)	HL GLBL EQ (Net)	MSCI ACW <sup>1</sup>	MSCI WORLD	Internal Dispersion <sup>2</sup>	Number of Accounts	Composite Assets (\$M)	Firm Assets (\$M)	% Firm Assets
2005 <sup>3</sup>	0.6%	0.5%	(0.8%)	(1.0%)	NA	†	81	1548	5
2004	9.0%	8.5%	15.8%	15.3%	†	†	82	1529	5
2003	32.5%	32.0%	34.6%	33.8%	†	†	127	1357	9
2002	(19.4%)	(19.8%)	(19.0%)	(19.5%)	0.6	6	118	1082	11
2001	(14.9%)	(15.5%)	(15.9%)	(16.5%)	0.4	7	152	1154	13
2000	1.3%	0.1%	(13.9%)	(12.9%)	†	†	108	1392	8
1999	38.9%	38.2%	26.8%	25.3%	†	†	96	1423	7
1998	2.3%	1.6%	22.0%	24.8%	0.5	11	179	1372	13
1997	11.0%	10.1%	15.0%	16.2%	0.6	15	251	1521	17
1996	17.3%	16.3%	13.2%	14.0%	0.2	13	188	1247	15
1995	19.0%	18.0%	19.5%	21.3%	0.6	13	147	635	23

<sup>1</sup>Benchmark Index; <sup>2</sup>Asset-weighted standard deviation (gross of fees); <sup>3</sup>The 2005 returns reflect the partial period January 1, 2005 through March 31, 2005.

†Five or fewer accounts

Global Equity Composite contains fully discretionary U.S. dollar-based global equity accounts and for comparison purposes is measured against the MSCI All Country World Index (gross dividends). Returns include the effect of foreign currency exchange rates. The exchange rate source of the benchmark is Reuters. The exchange rate source of the Composite is Bloomberg; prior to July 1, 1997 it was Reuters. Additional information about the benchmark, including the percentage of composite assets invested in countries or regions not included in the benchmark, is available upon request.

The MSCI All Country World Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The Index consists of 49 developed and emerging market countries. The MSCI World Index is a free float-adjusted market capitalization index that is designed to measure global developed market equity performance. The Index consists of 23 developed market countries. You cannot invest directly in this Index.

Harding, Loevner Management, L.P. has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®), the US and Canadian version of the Global Investment Performance Standards (GIPS®). AIMR has not been involved with the preparation or review of this report. Ashland Partners & Company, LLP has verified firmwide compliance since October 31, 1989, one quarter in arrears.

Harding, Loevner Management, L.P. is an independent registered investment advisor. The firm maintains a complete list and description of composites, which is available upon request.

Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Non-fee-paying accounts are not included in this composite. Composite performance is presented gross of foreign withholding taxes. Past performance is not indicative of future results.

The US dollar is the currency used to express performance. Returns are presented both gross and net of management fees and include the reinvestment of all income. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. The standard fee schedule generally applied to separate global equity accounts is 1.00% annually of the market value of assets up to \$20 million; 0.50% of amounts from \$20 million to \$100 million; negotiable for amounts over \$100 million. Actual investment advisory fees incurred by clients may vary. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

Balanced portfolio segments are not included, nor is this composite a sub sector of a larger portfolio. Leverage is not used in this composite.

The Global Equity Composite was created on November 30, 1989.

---

### **HARDING, LOEVNER MANAGEMENT, L.P.**

50 Division Street • Suite 401  
Somerville, NJ 08876

#### **Contact: Clarke Moody, CFA**

Telephone: 908-218-7900

Fax: 908-218-1915

Website: [www.hardingloevner.com](http://www.hardingloevner.com)